

Message Text

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SUBJECT: U.S. DEL COMMENTS ON INTERAGENCY TARIFFS GROUP PAPER ON
TARIFF FORMULA

1. SUMMARY. U.S. DEL COMMENTS ON THE PAPER "THE TARIFF
FORMULA -- FINAL PHASE OF NEGOTIATION" PREPARED FOR THE
INTERAGENCY TARIFFS GROUP. SUBSEQUENT MESSAGES WILL
COMMENT ON OTHER ASPECTS OF TARIFF NEGOTIATING PLAN BEING
CONSIDERED BY INTERAGENCY GROUP. END SUMMARY.

2. THE PAPER "THE TARIFF FORMULA -- FINAL PHASE OF NEGOTIA-
TION" DATED MAY 10, 1977, DOES AN EXCELLENT JOB OF DESCRIBING
THE PARAMETERS WITHIN WHICH WE MUST NEGOTIATE AN ACCEPTABLE
TARIFF-CUTTING FORMULA. WE WERE PARTICULARLY INTERESTED IN
THE PAPER'S STRESS ON SEPARATING U.S. MINIMUM OBJECTIVES
FROM THE QUESTION OF NEGOTIATING TACTICS AS THESE TWO
RELATED ASPECTS HAVE NOT BEEN SEPARATELY TREATED IN THE
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PAST. WE OFFER THE FOLLOWING COMMENTS ON SPECIFIC ELEMENTS
OF THE PAPER.

(1) PARAMETERS AND THE CANADIAN PROBLEM -- ONE OF
THE MAJOR U.S. OBJECTIVES (INDIRECTLY STATED ON PAGE 11)
IS TO HAVE CANADA PARTICIPATE IN THE TARIFF NEGOTIATIONS
AS A FORMULA COUNTRY. ALTHOUGH WE AGREE THAT THE LIKELY

SHAPE OF A TARIFF-CUTTING FORMULA WILL FALL SOMEWHERE BETWEEN THOSE PROPOSED BY THE U.S. AND THE EC, THE CANADIANS HAVE REPEATEDLY INDICATED THEY COULD NOT PARTICIPATE IN A TARIFF FORMULA THAT CUTS THEIR HIGH DUTIES BUT DOES LITTLE FOR THEIR EXPORTS, UNLESS CANADIAN EXPORT INTERESTS ARE SOMEHOW TAKEN INTO ACCOUNT EITHER IN THE FORMULA OR ELSEWHERE (E.G. SECTOR NEGOTIATIONS). WE CONTINUE TO RAISE THE QUESTION OF THE CANADIAN DEILEMMA (SEE MTN GENEVA 3850 FOR OUR LATEST DISCUSSION) BECAUSE MOST PAPERS THAT WE HAVE SEEN DO NOT ADDRESS THIS PROBLEM OR SUGGEST THAT CANADA CAN BE INDUCED TO ACCEPT A TARIFF FORMULA BY OFFERING TO TAKE CARE OF CANDADIAN INTERESTS IN SOME OTHER WAY, PRESUMABLY EITHER THROUGH SECTORAL NEGOTIATIONS IN SECTORS OF INTEREST TO THEM (NONFERROUS METALS, FOREST PRODUCTS), OR THROUGH SOME TYPE OF BILATERAL SIDE ARRANGEMENT WITH THE U.S. THIS MAY BE POSSIBLE. YET OUR PRELIMINARY ANALYSIS OF U.S. IMPORTS FROM CANADA(SEE HAMERSCHLAG PAPER OF FEBRUARY 16, 1977) INDICATES THAT IT WOULD BE DIFFICULT FOR THE U.S. TO MAKE MANY SIGNIFICANT GREATER THAN FORMULA CUTS OF BILATERAL INTEREST TO CANADA BECAUSE (A) SEVERAL ITEMS OF CANDIAN INTEREST ARE SENSITIVE ITEMS, AND (B) THE EC AND JAPAN WOULD BE SIGNIFICANT BENEFICIARIES ON MOST OTHER ITEMS. THIS RAISES THE QUESTION OF WHAT SPECIAL TARIFF CONCESSIONS THE U.S. COULD MAKE AND HOW THE U.S. CONCESSIONS MADE PRIMARILY TO ACCOMMODATE CANADA. ALSO, JAPAN AND THE EC REMAIN OPPOSED TO SECTORAL NEGOTIATIONS, AT LEAST IN THE NEAR TERM, WHICH COULD ACCOMMODATE THE LIMITED OFFICIAL USE

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CANADIANS. SIMILARLY, THE PERTINENT ISACS DO NOT APPEAR TO FAVOR SECTOR NEGOTIATIONS ALONG THE LINES OF THE CANADIAN PROPOSAL. AS MTN GENEVA 3850 NOTES, WE EXPECT THE CANDAIAANS TO TAKE THE INITIATIVE ON THE QUESTION OF WHAT THEY WANT INORDER TO ASSURE THEIR PARTICIPATION AS A FORMULA COUNTRY, BUT WE WOULD EXPECT THE INTERAGENCY GROUP TO ANALYZE THE CANDIAN QUESTION IN DETAIL SO THAT THE U.S. WILL BE PREPARED TO RESPOND KNOWLEDGEABLY TO A CANADIAN INITIATIVE IN THIS AREA.

(2) U.S. MINIMUM OBJECTIVES -- AS NOTED PREVIOUSLY, WE WELCOME THE EFFORT (P.12) TO DEFINE THE MINIMUM TARIFF REDUCTIONS BY TARIFF INTERVAL THAT THE U.S. IS WILLING TO ACCEPT. THE FIGURE OF A 20 PERCENT REDUCTION FOR A 5 PERCENT DUTY, HOWEVER, CONCERNS US AS IT IMPLIES INSIGNIFICANT REDUCTIONS IN THE RANGE BELOW 5 PERCENT, ESPECIALLY IF HARMONIZATION RESULTS IN DECREASINGLY SMALLER CUTS THAN 20 PERCENT IN THE RANGE BELOW 5 PERCENT. A TARIFF REDUCTION OF 20 PERCENT

ON A 5 PERCENT TARIFF COULD (WITH MAXIMUM PASS-THROUGH)
LEAD TO A PRICE REDUCTION OF LESS THAN 1 PERCENT.
PARTICULARLY IF STAGED OVER SEVERAL YEARS, SUCH A
TARIFF REDUCTION IS UNLIKELY TO LEAD TO A SIGNIFICANT
STIMULATION OF WORLD TRADE. ALSO, PROCEDURES FOR ROUNDING
COULD FURTHER ERODE THE EFFECTS OF THESE MINIMAL REDUC-
TIONS. FINALLY, WE WOULD BE ABANDONING IN THE LOW
RANGE ANY REAL EFFORT TO REDUCE TARIFF DISCRIMINATION
FACING OUR EXPORTS TO EC AND EFTA. IT MAY BE PREFERABLE
NOT TO SET A PERCENTAGE MINIMUM REDUCTION FOR THE
TARIFF RANGE BELOW 5 PERCENT, AND TO SEEK SOME OTHER
FORMULATION FOR THESE TARIFFS (E.G., A WEIGHTED DEPTH
OF CUT FOR TARIFFS 5 PERCENT AND BELOW, ALLOWING
PARTICIPANTS TO BALANCE SHALLOW CUTS ON SOME ITEMS
WITH DUTY ELIMINATION IN OTHERS) WITH PROGRESSIVE
HARMONIZATION AS DEFINED IN THE PAPER BEGINNING AT
5 PERCENT. ALTHOUGH WE ARE NOT ADVOCATING ANY
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PARTICULAR TREATMENT OF LOW DUTIES, WE WANT TO DRAW
THE INTERAGENCY GROUP'S ATTENTION TO OTHER POSSIBILITIES
FOR CUTTING TARIFFS IN THIS RANGE THAT MAY BE IGNORED
BY A STRICT ADHERENCE TO THE HARMONIZATION PRINCIPLE.
WE HOPE THAT THE INTERAGENCY GROUP WILL EXAMINE OTHER
POSSIBLE APPROACHES FOR CUTTING TARIFFS IN THE LOW
DUTY RANGE AND WILL ANALYZE THE EFFECT OF CHOOSING
SUCH A MINIMUM OBJECTIVE IN THE LOW DUTY RANGE, BOTH
ON U.S. EXPORTS AND ON U.S. IMPORTS.

(3) TACTICS -- ALTHOUGH THE PAPER PROPOSES DOES NOT
ADDRESS NEGOTIATING TACTICS FOR ACHIEVING U.S. OBJEC-
TIVES, THERE ARE SEVERAL POSSIBLE APPROACHES U.S. DEL
CAN TAKE IN ORDER TO SEEK AGREEMENT ON A TARIFF FORMULA.
WE URGE THAT THE CHOICE OF U.S. MINIMAL OBJECTIVES
DOES NOT EXCLUDE OUR USE OF ANY OF THE FOLLOWING
APPROACHES:

(A) SEEK A NEW ALGEBRAIC FORMULA ON WHICH DELS
CAN AGREE, DIFFERENT IN FORM FROM THOSE PROPOSED TO
DATE;

(B) SEEK A COMPROMISE FORMULA IN TERMS OF ONE
OF THE FORMULAS ALREADY PROPOSED;

(C) IGNORE THE ALGEBRAIC REPRESENTATION OF
THE FORMULA IN ORDER TO DISCUSS THE DEPTH OF CUT BY
TARIFF INTERVAL.

ALTHOUGH WE DO NOT RULE OUT ANY OF THESE APPROACHES AND
MA, IN FACT, EVENTUALLY SEEK A COMBINATION OF ALL OF

THEM, WE DO NOT BELIEVE THAT WE SHOULD LOCK OURSELVES
INTO ONE APPROACH AT THE BEGINNING. IT IS FOR THIS
REASON THAT U.S. DEL BELIEVES AN INITIAL APPROACH
WHICH GETS AWAY FROM THE ALGEBRAIC FORMULATIONS AND
ATTEMPTS TO GET AT THE TRADE-OFFS THAT LIE BEHIND THESE
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FORMULAS MAY BE THE BEST WAY TO START, ALTHOUGH WE
SHOULD SHOW WILLINGNESS TO SWITCH TO EITHER APPROACH
(A) OR (B) IF IT APPEARS MORE PROGRESS IS TO BE MADE
USING EITHER OF THESE TACTICS. ONCE THE SHAPE OF A
COMPROMISE SOLUTION BECOMES CLEARER, IT MAY BE
TACTICALLY USEFUL TO HAVE ONE OR MORE OF THE SMALLER
FORMULA PARTICIPANTS (SUCH AS THE NORDICS) PLAY THE
ROLE OF CONCILIATOR.WALKER

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